Port Econ J (2011) 10:3–21
DOI 10.1007/s10258-011-0072-1

ORIGINAL ARTICLE

Trade policy in the face of price and non-price strategies

Arastou Khatibi · Wouter Vergote

Received: 30 September 2010 / Accepted: 16 February 2011 / Published online: 8 March 2011

Abstract When selling their products domestically or internationally, firms rely on more than just price as a strategic variable. They also rely on non-price instruments such as advertising and/or R&D investments. Any trade policy that affects or limits the use of one variable will likely have strategic consequences for the use of all the others. Using a Hotelling model with vertical differentiation we focus on *how* trade policy barriers alter price and non-price competition on the goods market. The main results are as follows: first, no matter whether the trade restriction (tariff) is placed on the non-price instrument or on the good itself, the foreign (domestic) firm prefers to increase (decrease) its use of its pricing tool and give up some of (increase) its use of the non-price instrument. Second, in the presence of a non-price instrument, tariffs do not always lead both firms to increase their price: it can lead the foreign firm to decrease its (final) price.

This paper benefitted greatly from comments and discussions received at ETSG 2009, the 2010 Belgian Meeting of Trade Economists and the 4th meeting of the Portuguese Economic Journal. Financial support from the FNRS and from the Belgian Science Policy under the IAP contract P6/09 are gratefully acknowledged.

A. Khatibi
IRES, Université Catholique de Louvain, Place Montesquieu 3,
B-1348 Louvain-la-Neuve, Belgium
e-mail: Arastou.Khatibi@uclouvain.be

W. Vergote
CEREC, Facultés universitaires Saint-Louis, Boulevard du Jardin Botanique 43,
B-1000 Brussels, Belgium
e-mail: vergote@fusl.ac.be

W. Vergote
CORE, Université Catholique de Louvain, 34 voie du Roman Pays,
B-1348 Louvain-la-Neuve, Belgium

Keywords Trade policy · Spatial competition · Non-price strategies · Advertising

JEL Classification D43 · F13